1996 Annual Report

TESCO CORPORATION

Corporate Profile

Tesco Corporation is an international oilfield service company operating in over twenty countries. Tesco designs, manufactures and services highly efficient oilfield equipment that reduces the cost of drilling and producing oil and gas. Tesco is committed to an ongoing, in-house research and development program that leads to the practical application of new technology.

TESCO CORPORATION

GRIS GUN PERFX
- Perforating and other production equipment

KELON Electric Inc.
ENER-RIG Supply Inc.
(Electrical Systems)
- Engineering/Prototyping
- Manufacturing/Sales
- Worldwide Field Service

RESEARCH & DEVELOPMENT GROUP
- Integrated Underbalanced Drilling Solutions
- Casing Drilling
- Electric Variable Speed Drive Systems

Mainline Industries Inc.
(Hydraulic Systems)
- Engineering/Prototyping
- Manufacturing/Sales
- Worldwide Field Service

TESCO DRILLING TECHNOLOGY
- Top Drive Drilling Systems
- Electric/Hydraulic

TESCO IS A TECHNOLOGY DRIVEN, INTERNATIONALLY FOCUSED OILFIELD SERVICE COMPANY

Our customers are the oil, gas and geothermal operators and the drilling and workover contractors throughout the world.

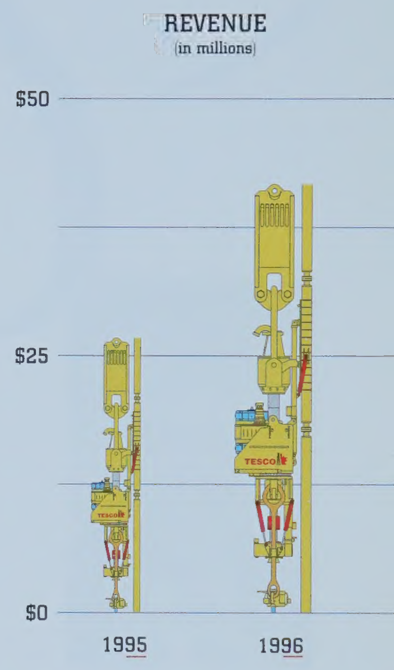
ABOUT THE COVER
Tesco's international leadership in the portable top drive market stimulates the global vision of our research and development efforts.

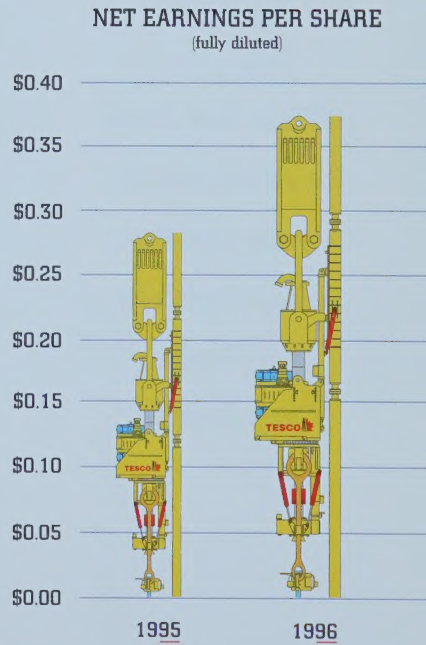
Financial Highlights

(Millions of Canadian Dollars, unless noted)	1996	1995	%
Revenue	41.9	26.2	+60%
EBITDA[1]	16.0	7.8	+105%
Net Earnings	8.7	5.1[2]	+71%
EPS (dollars per share fully diluted)	0.37	0.28[2]	+32%
Rental Service Days	7,055	2,371	+197%
Capital Additions	19.3	12.1	+60%
Working Capital	11.1	6.3	
Debt	Nil	Nil	
Total Assets	58.1	31.0	
Book Shareholders' Equity	43.6	22.5	
Basic Shares Outstanding (millions)	22.6	16.9	
Fully Diluted Shares Outstanding	27.2	19.0	

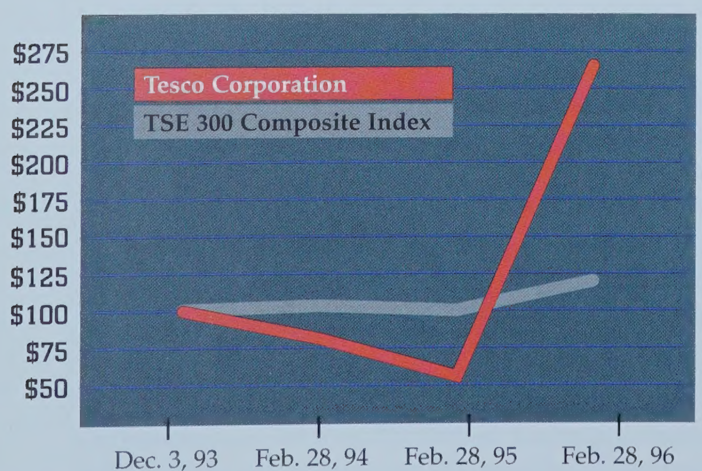
[1] Earnings before income taxes, depreciation and amortization

[2] Including one-time, after tax gain on disposition of Blue Bird Drilling of $929,000 or 5 cents per share





The following graph shows the percentage change in the cumulative shareholder return since December 3, 1993 on the Common Shares of Tesco (assuming a $100 investment was made on December 3, 1993). This is compared with the total cumulative return of the TSE 300 Composite Index assuming reinvestment of dividends.



To Our Shareholders

This has been a remarkable year for the shareholders of Tesco Corporation. From our entrepreneurial beginnings, we have met the challenges of rapid growth profitably. We have done so with the certain knowledge that many of our best ideas remain before us and that they are attainable - supported by the expertise of a dynamic service organization which now operates in over twenty countries.

R.M. (Bob) Tessari
Chairman of the Board,
President and
Chief Executive Officer

"This has been a remarkable year for the shareholders of Tesco Corporation."

I believe Tesco's greatest achievement in our fiscal year ending February 28, 1996 was the orderly expansion of the facilities of Tesco Drilling Technology (TDT). Under the direction of Mr. Len Power, our plant manager, the delivery of top drive systems doubled from two to four per month. Accompanying this expansion, the challenge for our operations department was to hire and train the top drive supervisors required to operate these machines world-wide. Credit goes to Mr. Evert Beierbach (recently appointed Senior Vice President and General Manager of TDT) and his team for attracting so many high quality personnel, many of whom must be bilingual to satisfy particular contracts. On numerous occasions, customers have made special efforts to express personal thanks for the excellent work our supervisors have done for them. As a former operations person myself, these acknowledgements of our quality organization make me proud to be the President of Tesco.

Other areas of rapid expansion include Tesco Drilling Technology (U.S.) Inc. Under the leadership of Mr. Michael Brouse, we have built a Latin American organization with Spanish speaking personnel that have done an excellent job in expanding our operations into Mexico and South America. The U.S./Latin American office in Houston has now become our largest operating arm for top drive rentals with the result that we plan to open a new facility to accommodate expected growth.

Both Gris Gun Manufacturing Ltd. and Perfx Perforating Supply Ltd. performed commendably in the last year. Mr. Delton Campbell, Senior Vice President and General Manager of this division, and his team have been instrumental in increasing this division's profitability, especially in the early years when the top drive division was in the R&D phase. Mr. Campbell continues to identify good acquisition prospects such as the recent purchase of Weissenborn Oil Tool Ltd. and will lead this division into new technologically related areas that will offer high returns.

The success of these two divisions, TDT and Gris Gun/Perfx, resulted in a 60% increase in Tesco's revenues to $41.9 million. Net earnings increased by 32% to $0.37 per share on a fully diluted basis. Correspondingly, we have witnessed a significant rise in the value of the Corporation's shares from a low of $1.80 to a high of $13.00. Tesco has recently completed a $20.0 million special warrant financing resulting in the issue of 2.0 million shares at $10.00 per share. These funds will be used to accelerate the development of Tesco's new technologies and to expand the scope of our existing divisions.

Fiscal 1997 will see our company continue its strong growth. To meet the growing demands of a more diverse company, a restructuring of the Corporation's management and organization has been carried out. To accommodate our

expanded operations and our R&D division, Tesco Corporation purchased a building in May 1996 which will house our corporate headquarters and our research and development division - this new division will allow Tesco to pursue projects that previously did not receive the same attention as the ongoing priorities within Tesco Drilling Technology.

The corporate structure has also seen two significant appointments. Mr. Per Angman has become the Chief Operating Officer of Tesco Corporation in charge of research and development. Mr. Colin Murch has been promoted to Vice-President of Business Development. Both men have played key roles in Tesco's success and they will have significantly increased responsibilities in managing the growth of our expanding organization.

Under Mr. Martin Hall, Senior Vice-President of Finance, our accounting group experienced significant growth with senior personnel meeting the financial challenges of operating in diverse geographic areas, with growing inventories, and increased reporting requirements.

"We witnessed a significant rise in the value of the shares of the Corporation, from a low of $1.80, to a high of $13.00."

Adding to the diversification of Tesco was the strategic acquisition of two companies that will allow vertical integration of our top drive business and in-house support for our proprietary R&D projects. On May 1, 1996, the business and assets of Kelon Electric Ltd. and Ener-Rig Supply Ltd. were acquired. Kelon and Ener-Rig are engaged in the supply, service and manufacture of electrical components for oilfield and industrial applications. The second acquisition was Mainline Hydraulics Ltd. on July 2, 1996. Mainline is engaged in the supply, service and manufacturing of hydraulic components for oilfield and industrial applications.

Kelon, Ener-Rig and Mainline will continue to operate their core businesses, and will also design and manufacture new products developed by our R&D division. In addition, both companies will continue to play important roles in the manufacture of top drives: Kelon and Ener-Rig in the new permanent magnet electrical top drives, and Mainline in the hydraulic top drives and robotic pipe handling.

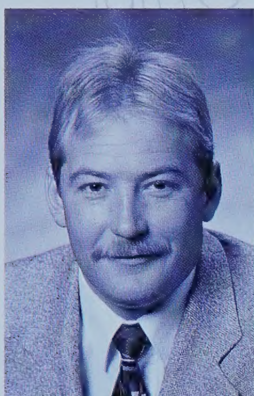
In keeping with the rest of our dynamic organization, our Board of Directors will focus on our ever-increasing international business. To this end, a further strengthening and diversification of the Board will be presented at the Annual Meeting. This process of strengthening has already begun with the recent appointment of Mr. Jim McCormick who brings to the Board significant oilfield service experience and insights.

The considerable efforts of our 300 employees at Tesco are a source of great pride to me. I am certain that these efforts, the healthy relationships we maintain with our customers and the support and confidence shown by our shareholders will continue to provide the foundation for Tesco's future successes.

Robert M. Tessari
Chairman of the Board
President and Chief Executive Officer,

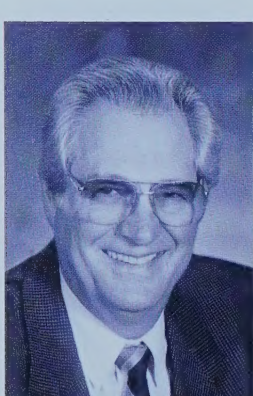
R M Tessari

July 5, 1996



Evert Beierbach
Senior Vice President
and General Manager
Tesco Drilling Technology

The focus for TDT will be on marketing and the controlled expansion of our world-wide operations.



Michael Brouse
Senior Vice President
and General Manager
Tesco Drilling Technology-U.S.

Tesco Drilling Technology

TDT-Canada and TDT-U.S. (together, "TDT") manufacture, sell and rent portable top drive systems for use in the oil and gas industry. A top drive is a robotic machine consisting of a powerful drilling motor that travels up and down on a track within an oil and gas well drilling derrick or mast and is able to both hoist and rotate the string of drill pipe at the same time. Since the early 1980's, top drives have become the standard for offshore drilling and now the same process is beginning on land. TDT has developed a complete portable top drive drilling system which is robust in its torque capacity yet small enough to fit onto the majority of land based drilling rigs. TDT initially selected hydraulic power for its portable top drives since hydraulic systems are substantially smaller, lighter and safer (non-sparking devices) than existing electric top drives and the electric motors they employed.

TDT's pioneering drilling technology efforts have been recognized around the world. TDT is a past recipient of the prestigious Petroleum Engineer International, "Special Meritorious Award for Innovative Engineering". Other notable accomplishments include the world's first successful installation of a portable top drive into:

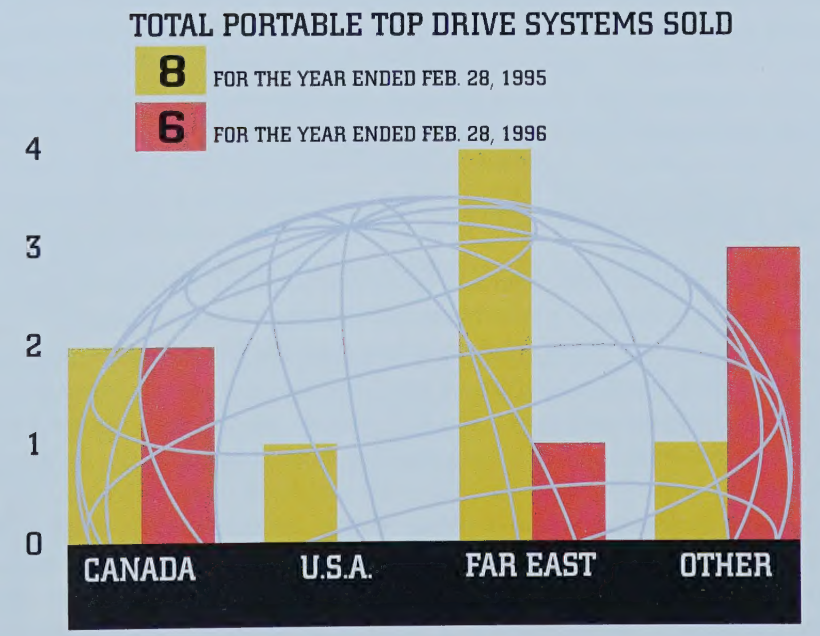
- a land drilling rig for ELAN Energy Inc. in Canada in July 1992;
- a platform drilling rig for Teikoku Oil Co. Ltd. in the Sea of Japan in June 1994;
- a workover rig, for OMV Aktiengesellschaft in Austria in June 1995;
- the smallest triple land rig, the Dreco 127' in Canada, in January 1996.

TDT has developed an expanded product line that now includes the Hydraulic Compact ("HC") and the Electric Compact ("EC") top drives. The original Hydraulic Standard ("HS") top drive has been the mainstay of the rental fleet. TDT's portable top drive systems are available in 250 ton to 650 ton hook load capacities. Power units for the portable systems vary between 450 and 1,150 horsepower. The HS fits into larger land rigs. The HC has critical dimensions that allow it to fit into smaller land rigs and large workover rigs. The EC is powered by motors that are significantly smaller and lighter than all the competing manufacturers' electric top drives. TDT had not participated in the electric top drive market until recently because the electric motor technology that existed did not meet TDT top drive design criteria. TDT anticipates strong demand for the purchase of the new EC model for offshore and diesel electric land rigs. This will augment the strong portable hydraulic top drive rental service business.

Testing of the EC is currently underway at Tesco's manufacturing facility. No field testing has been completed to date. It is anticipated that the EC will not be available for commercial use until the beginning of 1997.

TDT has continued to concentrate on expanding its rental service market. The rental service days recorded for the years ended February 28, 1995 and February 28, 1996 have increased dramatically. This increase was a result of higher utilization rates and the increasing number of top drives available for rental. The rental service fleet increased from 19 top drive systems to 42. TDT expects that the proportion of rental service revenues generated from the United States and other foreign countries will continue to increase as the rental fleet is expanded. TDT sold six top drive systems in the past year and this figure is expected to increase with the introduction of the EC top drive. The sales and rentals of TDT top drives are coordinated through marketing offices in Calgary, Alberta; Houston, Texas; Perth, Australia; and Beijing, China. TDT retains marketing agents in various areas of significant oil and gas activity throughout the world. According to a report by Solomon Brothers, worldwide capital expenditures on oil and gas exploration and production will increase from US $59 billion to US $64 billion. TDT's marketing strategy is to focus on the areas where these expenditures will be concentrated.

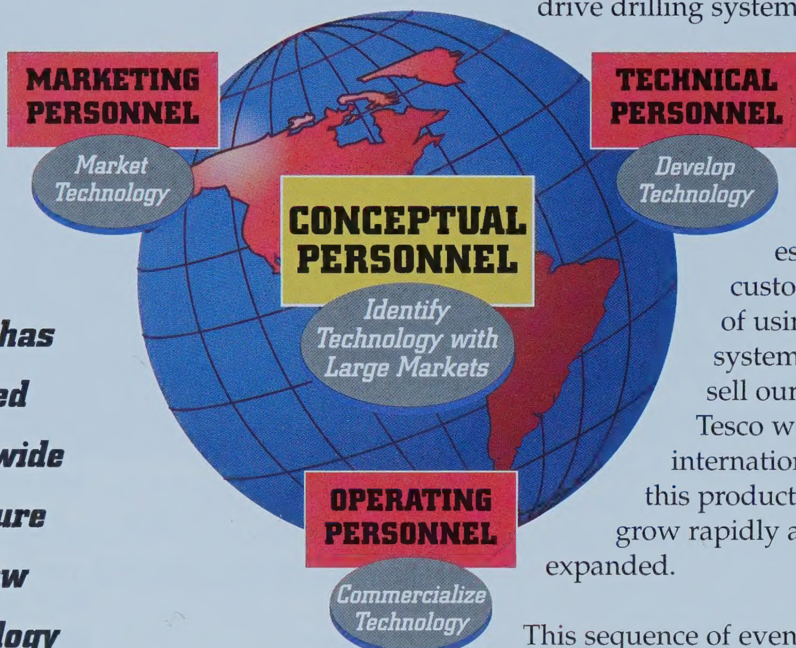
TOP DRIVE RENTAL SERVICE DAYS



Gerry Marshall
Vice President, Marketing
Tesco Drilling Technology

Tesco Research and Development

Tesco Corporation evolved in 1986 from a research and development project that was based on the **concept** of a portable top drive drilling system. Senior management at Tesco knew from their practical drilling experience that a large market existed if this concept could be made a reality. These **technical personnel** set about to develop the concept by designing and building the first prototype top drive drilling system in 1990. The prototype was tested in the field for two years by a group of **operating personnel** who commercialized the product in 1992. Then, in 1993, a **marketing group** was established to educate our potential customers on the economic advantages of using portable top drive drilling systems on existing drilling rigs and to sell our services world-wide. By the time Tesco went public in December 1993, an international market had been created for this product. Shareholder value continues to grow rapidly as this world-wide market is expanded.



Tesco has gained world-wide exposure to new technology through the use of its top drive systems.

This sequence of events describes the path that good ideas or concepts must take for the growth potential of a technology company to be realized. Tesco, since inception, has defined the pivotal role of research and development in commercializing good concepts and recognizes its continued necessity as the catalyst for our future endeavours. To this end, a new research and development division has been added to our corporate structure to focus on the following three projects with large market potential if they can be successfully commercialized:

Integrated Underbalanced Drilling Solutions

Tesco has gained world-wide exposure to underbalanced drilling through the application of its top drives. Underbalanced drilling occurs when the hydrostatic pressure of a fluid column is less than the formation or reservoir pressure. To lighten the fluid column a gas, usually nitrogen, is injected into the drilling fluid as it is pumped down the drill string. As the drilling fluid returns up the annulus between the drillstring and the hole, it induces the formation fluids (oil, gas, or water) to flow into the well and back to the surface. In essence, the well is flowing while drilling occurs. At the surface, drilling fluids are returning under pressure and must be put through a separator to measure and separate the multi-phase flow. The key to this process is to ensure that the hydrostatic pressure of the lightened drilling fluid in the annulus is always less than the reservoir pressure. Using this process to drill certain depleted reservoirs results in increased production by not damaging the formation.

Per G. Angman
Chief Operating Officer, Tesco Corporation

In order to drill underbalanced, eight to ten individual, specialized services are required but too often these services are not coordinated and the underbalanced drilling operation fails. In addition, these multiple individualized services are costly to the operators as each service requires its own personnel and the attendant related expenses.

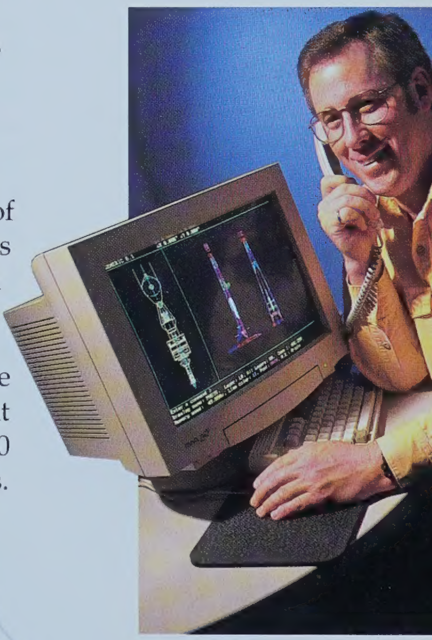
Over the past six months Tesco has performed a market study on making the underbalanced drilling system more cost effective and successful for the operator. Research and development on integrating these services is continuing as this new drilling technique evolves.

Tesco Casing Drilling Joint Venture

Approximately US $35 billion are spent each year world-wide on drilling or drilling related projects. Of this US $35 billion, inefficiencies or unscheduled events such as sticking the drillstring and/or related downhole tools in the hole cost approximately US $5 billion dollars. With this in mind, Tesco identified the commercial development of casing drilling as a project with a high risk profile offering significant rewards.

Tesco identified Casing Drilling as a project offering significant rewards...

Casing drilling would, if successful, eliminate drillstring and tripping (pulling the drillstring out and running it back into the hole for a bit or tool change) and instead uses the casing to drill the well. The tripping procedure is performed by running wireline down inside the casing to change the bit and the well is cased as it is drilled. Casing Drilling would, then, eliminate most of the unscheduled events currently experienced.



Effective August 15, 1995, Tesco entered into an agreement by which it acquired patent rights consisting of a license to use two United States patents for a period of three years and an option to acquire the patent rights for US $100,000. The patents relate to technology applicable to the drilling of a wellbore with final casing and a retrievable drill bit known as casing drilling.

Tesco decided that the initial development of the casing drilling concept should be financed as an entity separate from Tesco Corporation. Tesco Casing Drilling Joint Venture was accordingly established on February 9, 1996 and capitalized with $5.0 million raised from third party investors with Tesco contributing the patent rights. Casing Drilling Ltd., a wholly owned subsidiary of Tesco, is the operator of the Joint Venture.

At such time as it may be determined that additional funding is necessary for the purposes of the Joint Venture, Tesco has the option to contribute such funding in an amount which will result in Tesco holding an undivided interest in the Joint Venture equal to that held by the initial subscribers.

Electrical Variable Speed Drive Systems

In 1986, Tesco Drilling Ventures Inc. (the forerunner to Tesco Corporation) identified a large market for variable speed generation. Variable speed generation allows the generation of 60 hertz power from a diesel engine generator without having to operate the engine at maximum speed. Having to run a 1000 HP diesel engine at maximum speed simply to illuminate a few light bulbs is highly inefficient. In 1987, Tesco Drilling Ventures Inc. spent approximately $100,000 to develop a variable speed hydraulic system to solve these difficulties. However, the project was put on hold until such time as funding and technical personnel could be made available. With the breakthrough in permanent magnet technology (presently used on TDT's electrical top drive) and the addition of Kelon Electric's expertise to the Corporation, this project is once again under development.

Delton A. Campbell
Senior Vice President and General Manager, Gris Gun Manufacturing Inc.

Gris Gun/Perfx

Gris Gun Manufacturing Inc. is a manufacturer and distributor of an exclusive line of oil and gas well completion products. The company's main revenue stream comes from the sale of Expendable Retrievable Hollow Steel Carrier perforating guns, as well as a growing line of Tubing Conveyed Perforating (TCP) products. Perforating, through the conveyance of specialized explosive devices to the appropriate production zone in a well, is typically part of the final process of completing a well just prior to the start of its productive life. Tubing Conveyed Perforating is a growing segment of this market which allows the shaped explosive charges to be run on production or coiled tubing, enabling a wider range of well stimulation techniques to be employed.

Perforating services are used one or more times on virtually every oil & gas well in the world.

Perfx Perforating Supply Ltd. acts as a distributor of third party products to this industry, and is the exclusive Canadian distributor for GOEX International Inc.'s line of oilfield explosive devices. In many instances, Perfx and Gris Gun products are sold in combination.

Gris Gun continued to expand its presence in the TCP accessory market with the acquisition in April 1996 of the assets of Weissenborn Oil Tool Ltd., an Edmonton based company which supplies the majority of TCP products to the independent Canadian perforating sector. Mr. Abe Weissenborn, founder of the company, has joined the organization in a design and marketing position.

Gris Gun was pleased to announce in February 1996 the hiring of Mr. Andrew Buzinsky, in the position of Manager of Engineering. This reflects the company's increased commitment to the development of new products. Mr. Buzinsky has extensive experience in the design and application of downhole completion tools.

A major expansion of the company's Red Deer manufacturing facility was undertaken to alleviate overcrowding and allow for future expansion of production capacity. The process of integrating the Weissenborn Oil Tool line into Gris Gun's manufacturing cycle is well under way, and prototype testing of several new products prior to first production runs is being completed.

The focus in the current year will be in three areas: maintaining and increasing the Canadian market share for Gris Gun/Perfx's current line of products; developing and marketing new tubing conveyed products; and continuing the expansion of international marketing efforts for all products. In the past year increased sales in the U.S. market as well as Europe and the Far East helped offset reduced activity in Canada.

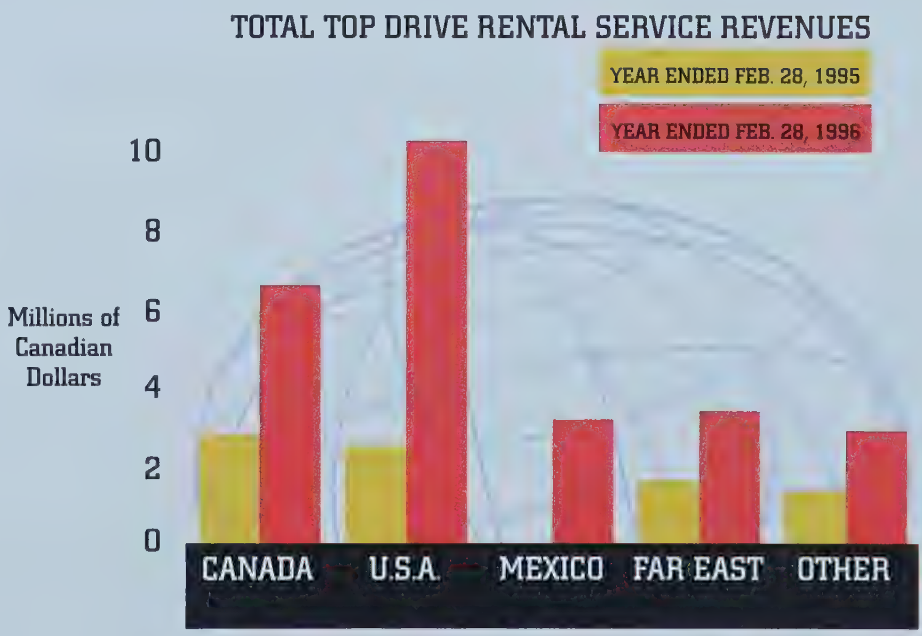
Management's Discussion and Analysis

The following is an historical review of Tesco's financial and operating results and should be read in conjunction with the consolidated financial statements of the Corporation for the years ended February 28, 1996 and February 28, 1995. The year ended February 28, 1995 was the Corporation's first full year of operations since its Amalgamation on December 1, 1993.

Analysis of Operations

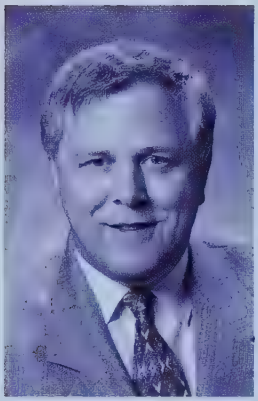
Year Ended February 28, 1996

Revenues increased by 60% to $41.9 million from $26.2 million. Drilling services revenues tripled to $26.3 million as the Corporation increased its rental fleet from 19 portable top drive systems at February 28, 1995 to 42 systems at February 28, 1996. Billable rental days tripled from 2,371 in 1995 to 7,055 in the current fiscal year. Rental contract revenue increased in Canada and the U.S.A. and new areas of rental operations included Mexico, the Philippines, Italy, Holland and Germany. During the year six top drive systems were sold compared to eight systems the preceding year. All sales outside Canada were billed in U.S. dollars.



TDT's rental service revenues during the year ended February 28, 1996 amounted to $26.3 million (1995 - $8.2 million) and were divided approximately as follows on a geographic basis:

Sales by the Gris Gun division were $8.2 million during the year ended February 28, 1996 compared to the record sales of $8.8 million in the fiscal year ended February 28, 1995. In 1989, when the division was purchased by Forewest, one of the Corporation's predecessor companies, annual sales were $1.7 million. Management believes Gris Gun's sales are directly related to the number of western Canada oil and gas well completions which totalled approximately 10,000 in 1996 compared to 11,000 in 1995.



Martin Hall
Senior Vice President, Finance and Secretary Tesco Corporation

Total expenses were up 46% from $19.3 million for the year ended February 28, 1995 to $28.1 million primarily due to the increase in activities and related number of employees. Overall cash gross margins increased during the year. Depreciation expense rose by 120% due to the increase in the fleet of rental portable top drive systems. Selling, and general and administration expenses were up by 75% and 37%, respectively, reflecting the increased sales and production activities. Research and development expenses exclude the net cost of development of the hydraulic compact top drive. Costs of development to date of the electric top drive have been capitalized.

Current tax expense was $4.1 million and deferred tax expense was $1.1 million resulting in a tax provision of 37% of income before taxes compared to 41% in 1995. The reduction is due primarily to the relative increase in the profit contribution from the United States allowing the utilization of certain United States tax loss carry forwards. At February 28, 1996, the Corporation had Canadian tax pools totalling approximately $26.0 million plus United States tax loss carry forwards of approximately U.S. $1.0 million.

"Revenues increased by 60%..."

Additions to capital assets were $19.3 million during the year compared to $12.1 million in the preceding year. These additions were comprised mainly of rental top drive systems. $0.6 million was capitalized to technology, being the cost of development of the compact top drive system, net of proceeds received from the sale of the prototype unit. Other additions included $0.6 million at the Gris Gun plant in Red Deer which manufactures perforating guns.

At February 28, 1996, the Corporation's working capital position was $11.1 million compared to $6.3 million at February 28, 1995. The working capital included $4.1 million of cash. Each of accounts receivable, inventory and accounts payable increased due to the increase in the Corporation's activities.

Year Ended February 28, 1995

Reported revenues were up 30% in the fiscal year ended February 28, 1995 to $26.2 million as TDT commenced its first full year of operations. Revenues from drilling services were down from $13.1 million to $8.2 million due to the sale of the Blue Bird Drilling division which contributed $11.2 million of sales revenues in 1994; however, the gross profit from drilling services increased from $3.3 million to $4.4 million in 1995 due to the higher margins on portable top drive drilling services.

Sales of oilfield equipment rose from $6.9 million in 1994 to $17.7 million partly as a result of record levels of drilling and completion activity in western Canada which helped the Gris Gun division to achieve record sales of $8.8 million compared to $5.3 million in the preceding period. Eight portable top drive systems were sold during the year of which six were exported. Total export revenues, which were primarily billed in U.S. dollars, were $12.9 million compared to $1.5 million in the previous year.

Total expenses increased by 7.5% from $18.0 million for the eleven months ended February 28, 1994 to $19.3 million in the fiscal year ended February 28, 1995, primarily as a result of increased activity. Selling expenses tripled reflecting the Corporation's effort to market its portable top drive systems world-wide and the opening of a sales office in Houston, Texas at the beginning of 1994.

At February 28, 1995 the Corporation had Canadian tax pools totalling $13.0 million plus United States tax loss carry forwards of U.S. $3.0 million. Current taxes payable for the fiscal year ended February 28, 1995 were limited to $1.9 million as the Corporation was able to take advantage of certain loss carry forwards, capital cost allowance and manufacturing and processing credits.

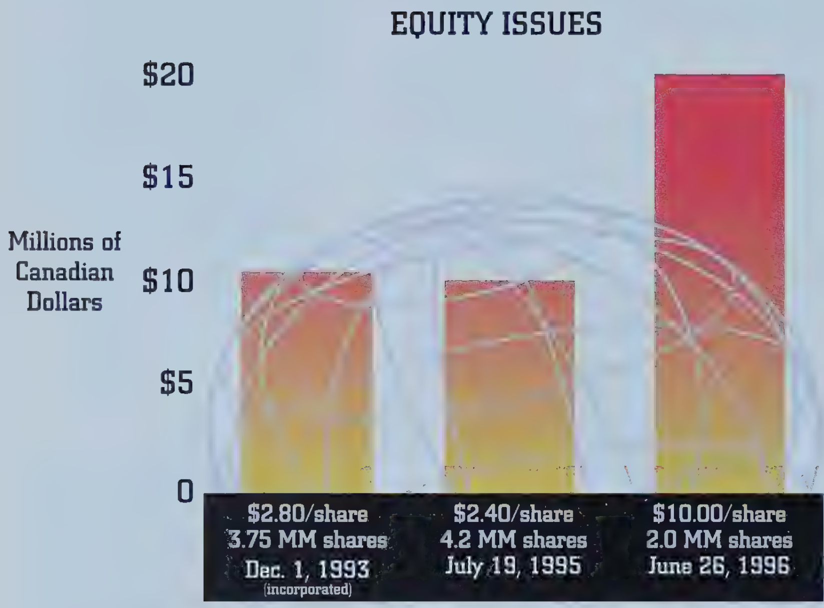
Additions to capital assets were $12.1 million during the year compared to $4.3 million in the preceding period. These additions were comprised mainly of rental top drive systems and manufacturing plant and equipment for their construction. Other additions included $0.4 million at the Gris Gun plant in Red Deer, Alberta.

Colin Murch,
Vice President,
Business Development
Tesco Corporation

At February 28, 1995, the Corporation's working capital position was $6.3 million compared to $9.9 million at February 28, 1994. The reduction in working capital was the result of additions to the Corporation's fleet of rental portable top drive systems. On March 1, 1994, the sale of the assets of the Blue Bird Drilling and Shelter Supply divisions was closed resulting in a cash infusion of $6.2 million. The Corporation required approximately $4.0 million of working capital to finance the capital work in progress and parts inventory necessary to manufacture its portable top drive systems.

Liquidity and Capital Position

At February 28, 1996, the Corporation had no debt and had working capital of $11.1 million. The growth in net assets during the year of $21.0 million was financed by proceeds, net of issue costs, from the issue of new share capital of $12.3 million and retained earnings of $8.7 million.



On April 4, 1996, the Corporation sold 2,000,000 Special Warrants at $10 each; the net proceeds of the sale of these Special Warrants, estimated to be $18.9 million, will be available to the Corporation within ten days of receiving regulatory approval of a prospectus that the Corporation has filed, which was obtained on June 28, 1996. The Corporation has obtained the agreement of a Canadian chartered bank to provide a credit facility consisting of an operating line of $4.5 million and a non-revolving term facility of $7.5 million. The Corporation intends to draw on this facility to the extent necessary until it receives the funds from the sale of Special Warrants. Management is of the view that the arrangements that are in place, together with the funds generated from operations, will be sufficient to meet the Corporation's capital needs for the 1997 fiscal year.

Outlook

"The Corporation sold 2,000,000 Special Warrants at $10 each..."

The Corporation acquired, on April 1, 1996, the business of Weissenborn Oil Tool Ltd. for $1.1 million, on May 1, 1996, the businesses of Kelon Electric Ltd. and Ener-Rig Supply Ltd. for $2.6 million cash (subject to purchase adjustments to be determined by May 31, 1996) and, on July 2, 1996, Mainline Hydraulics Ltd. for $3.7 million. In addition, the Corporation has concluded the purchase of a building in Calgary for $1.5 million to house its head office staff, its research and development facilities and the Tesco Casing Drilling Joint Venture.

The Corporation has obtained rental contracts for 10 top drive systems in Mexico and is focusing its marketing efforts in Latin America and oil producing areas of the Far East, Northern Europe, Africa and the Middle East as well as its core markets in Canada and the United States.

It is expected that selling expenses will increase due to an aggressive advertising campaign and the engagement of marketing personnel in prospective market areas around the world. General and administrative expenses can be expected to increase commensurate with the level of activity and the acquisition of Kelon/Ener-Rig and Mainline.

Management's Report

Management is responsible for the preparation of the consolidated financial statements and the information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Corporation's circumstances. The financial and operating information included in this annual report is consistent, in all material respects, with that contained in the consolidated financial statements.

The Corporation maintains systems of accounting and internal controls to provide reasonable assurance that its financial information is reliable, relevant and accurate, and that its assets are adequately safeguarded.

The Audit Committee, consisting of two non-executive directors, is responsible for reviewing the consolidated financial statements and other financial information contained in this annual report, and overseeing management's performance of its financial reporting responsibilities. The Audit Committee has reviewed these financial statements with management and the auditors. The external auditors have unlimited access to the Audit Committee, are appointed by the Shareholders, and have independently examined the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

R. M. Tessari
Chairman of the Board,
President and Chief Executive Officer

Martin Hall, C.A.
Senior Vice President, Finance
and Secretary

Auditors' Report

To: The Shareholders of Tesco Corporation

We have audited the consolidated balance sheets of Tesco Corporation as at February 28, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Price Waterhouse
Chartered Accountants

Calgary, Alberta
May 10, 1996

Consolidated Balance Sheets as at February 28

(Thousands of Canadian Dollars)

	Notes	1996	1995
		$	$
ASSETS			
Current assets			
Cash and short-term deposits		**4,092**	755
Accounts receivable		**12,970**	8,012
Inventories	2	**6,132**	3,581
Assets held for sale		**-**	863
		23,194	13,211
Capital assets	3	**34,236**	17,033
Goodwill and other assets	4	**631**	773
		58,061	31,017
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**10,739**	5,664
Income taxes payable	5	**1,336**	1,264
		12,075	6,928
Deferred income taxes	5	**2,393**	1,550
		14,468	8,478
SHAREHOLDERS' EQUITY			
Share capital	6	**30,619**	18,261
Retained earnings	6	**12,974**	4,278
		43,593	22,539
		58,061	31,017

Signed on behalf of the Board of Directors

R. M. Tessari

Director *Director*

Consolidated Statements of Earnings for the years ended February 28

(Thousands of Canadian Dollars except per share amounts)

	Notes	1996	1995
		$	$
Revenues			
Drilling services		**26,289**	8,231
Oilfield equipment		**15,328**	17,678
Interest and other		**305**	249
		41,922	26,158
Expenses			
Drilling services		**10,519**	3,822
Oilfield equipment		**9,750**	10,868
Depreciation and amortization		**2,103**	959
General and administration		**3,042**	2,217
Selling		**2,467**	1,409
Research and development		**134**	-
Interest		**36**	-
		28,051	19,275
Earnings before the following		**13,871**	6,883
Gain on sale of capital assets		**-**	1,555
		13,871	8,438
Income taxes			
Current	5	**4,053**	1,907
Deferred	5	**1,122**	1,550
		5,175	3,457
Net earnings for the year from continuing operations		**8,696**	4,981
Net earnings from discontinued operations	4	**-**	120
Net earnings for the year		**8,696**	5,101
Earnings per share from continuing operations			
Basic		**0.43**	0.29
Fully diluted		**0.37**	0.27
Earnings per share from discontinued operations			
Basic and fully diluted		**nil**	0.01
Net earnings per share			
Basic		**0.43**	0.30
Fully diluted		**0.37**	0.28

Consolidated Statements of Retained Earnings for the years ended February 28

(Thousands of Canadian Dollars)

	1996	1995
	$	$
Retained earnings, beginning of year	4,278	(823)
Net earnings for the year	8,696	5,101
Retained earnings, end of year	12,974	4,278

Consolidated Statements of Changes in Financial Position for the years ended February 28

(Thousands of Canadian Dollars)

	1996	1995
	$	$
Cash provided by operating activities		
Net earnings for the year from continuing operations	8,696	4,981
Adjusted for items not involving funds		
Deferred income taxes	1,122	1,550
Depreciation and amortization	2,103	959
Gain on sale of capital assets	-	(1,555)
	11,921	5,935
Changes in non-cash working capital balances	(2,362)	(1,530)
	9,559	4,405
Cash (used in) investing activities		
Additions to capital assets	(19,270)	(12,125)
Proceeds from sale of capital assets	-	6,234
Other assets (net)	106	(182)
	(19,164)	(6,073)
Cash provided by financing activities		
Issue of share capital	12,838	91
Share issue costs	(759)	-
	12,079	91
Cash provided by discontinued operations		
Cashflow for the year	-	197
Additions to capital assets	-	(9)
Proceeds from sales	863	82
	863	270
Net increase (decrease) in cash position during year	3,337	(1,307)
Net cash, beginning of year	755	2,062
Net cash and term deposits, end of year	4,092	755

(Thousands of Canadian Dollars)

1. **Accounting Policies**

(a) ***Consolidation***

The consolidated financial statements include the accounts of the Corporation and its domestic and foreign subsidiaries, all of which are wholly-owned.

(b) ***Foreign currency translation***

The Corporation's U.S. operations are considered to be fully integrated and all amounts in U.S. currency have been translated to Canadian dollars on the following basis:

(i) Monetary assets and liabilities, at the exchange rate prevailing at year end.

(ii) Non-monetary assets and liabilities, including deferred income taxes, at the historic rate of exchange.

(iii) Revenue and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the period.

Resulting foreign exchange translation gains and losses are included in the statement of earnings.

(c) ***Inventories***

Inventories are valued at the lower of cost and net realizable value. Cost of raw materials and finished goods are calculated on an average-cost basis. Work in progress is comprised of drilling equipment under construction for sale and includes raw materials, direct labour and applicable factory overhead.

(d) ***Capital assets***

The Corporation's fleet of rental top drive systems is included as drilling equipment in capital assets. The sale of rental top drive systems results in the net book value of such systems being expensed as a cost of sale of oilfield equipment.

(e) ***Depreciation and amortization***

Depreciation and amortization is provided for on the straight-line method based on the estimated useful lives of the various major classes of assets as follows:

	Estimated useful life in years
Drilling equipment	12
Technology and development costs	12
Buildings	20
Manufacturing equipment	5

(Thousands of Canadian Dollars)

Office furniture and equipment and small tools are depreciated on the declining-balance method at rates ranging from 20 - 30%. Certain other capital assets are depreciated on the straight-line basis at rates varying between one and ten years. The estimated residual value of these assets is immaterial.

(f) ***Goodwill***

Goodwill represents the excess of the cost of the purchase of Gris Gun Manufacturing Ltd. over the net book value of its underlying net assets at the date of acquisition and is being amortized on a straight-line basis over ten years.

(g) ***Research and development***

The Corporation expenses research costs. Costs of product development for specific applications, which in the opinion of management are marketable, are capitalized as technology and amortized accordingly.

(h) ***Per share information***

Per share information is computed using the weighted average number of common shares outstanding during the year. Fully-diluted per share information is computed assuming that all options and warrants are exercised at their date of issue and the proceeds invested to generate earnings at an after tax yield equal to the expected income on investment of the proceeds.

2. Inventories

	1996	1995
	$	$
Raw materials	4,046	923
Work in progress	-	1,845
Finished goods	2,086	813
	6,132	3,581

For the years ended February 28

(Thousands of Canadian Dollars)

3. Capital Assets

At February 28, 1996

	Cost	Accumulated depreciation and amortization	Net book value
	$	$	$
Land, buildings and leaseholds	883	192	691
Drilling equipment	31,000	1,902	29,098
Manufacturing equipment	2,065	613	1,452
Technology and development costs	2,442	594	1,848
Office and other	1,572	425	1,147
	37,962	3,726	34,236

At February 28, 1995

	Cost	Accumulated depreciation and amortization	Net book value
	$	$	$
Land, buildings and leaseholds	624	151	473
Drilling equipment	14,352	448	13,904
Manufacturing equipment	1,150	345	805
Technology and development costs	1,886	413	1,473
Office and other	634	256	378
	18,646	1,613	17,033

Drilling equipment includes related manufacturing costs and overhead. Work in progress relating to drilling equipment under construction totalling $3,541 (1995 - $3,213) is not depreciated. The net book value of drilling equipment included in cost of oilfield equipment sales for the year is $1,287 (1995 - $1,827).

The cost of office and other assets at February 28, 1996 includes $448 of oil and gas properties previously included in other assets (Note 4).

For the years ended February 28

(Thousands of Canadian Dollars)

4. Goodwill and Other Assets

	1996	1995
	$	$
Goodwill	360	360
Accumulated amortization	(181)	(145)
	179	215
Other	452	558
	631	773

In fiscal 1994 the Corporation decided to discontinue its oil and gas and mineral exploration activities and accordingly wrote these assets down to their realizable value. The majority of these assets were disposed of in 1995.

The net book values of the assets associated with these discontinued activities are included in these financial statements as follows:

	1995
	$
Assets held for sale	863
Other assets	371
	1,234

Summarized results of these discontinued operations are as follows:

	1995
	$
Oil and gas production	379
Operating costs	(169)
Depletion and depreciation	(77)
General and administration	(13)
	120

5. Income Taxes

A subsidiary of the Corporation has losses for U.S. tax purposes of approximately U.S. $1.0 million (1995 - U.S. $3.0 million) which expire at various times to 2003. As the ability of the Corporation to utilize these losses is uncertain, the benefit of these losses is recognized as it is realized.

Income tax expense, which is 37.3% of income before income tax (1995 - 40.9%), varies from the amounts that would be computed by applying the combined federal and provincial income tax rate of 44.3% due primarily to recognition of previously unrecorded income tax benefits.

(Thousands of Canadian Dollars)

6. Share Capital

(a) *Authorized*

- Unlimited common shares without par value
- Unlimited first preferred shares issuable in series
- Unlimited second preferred shares issuable in series

(b) *Issued common shares*

	Number of Shares	Amount
		$
Balance - February 28, 1994	16,869,006	18,170
Issued for cash on exercise of stock options	65,412	91
Balance - February 28, 1995	16,934,418	18,261
Issued for cash on exercise of special warrants	4,200,000	10,080
Issued for cash on exercise of stock options	1,411,284	2,655
Issued for cash on exercise of share purchase warrants	80,701	103
Share issue costs (net of deferred tax benefits of $279)	-	(480)
Balance - February 28, 1996	22,626,403	30,619

(c) *Special warrants*

On May 25, 1995, the Corporation sold 4,200,000 Special Warrants at a price of $2.40 each; these Special Warrants were converted to units consisting of one common share and one half of a common share purchase warrant and the units were qualified for distribution pursuant to a prospectus filed by the Corporation dated July 13, 1995. Each whole common share purchase warrant entitles the holder to acquire one common share at a price of $3.00 on or before December 31, 1996.

(d) *Reduction of capital*

Effective November 30, 1993, the Corporation reduced its share capital by $13,842 to eliminate the accumulated deficit at that time.

(Thousands of Canadian Dollars)

(e) ***Stock options***

Stock options to purchase common shares for the directors, senior officers and key employees were as follows:

February 28, 1996	Exercise Price ($)	Expiry Date
125,000	0.80	July 17, 1996
13,610	2.17	September 10, 1997
731,900	2.50	March 9, 1999
210,500	2.05	March 31, 2000
60,000	2.55	March 31, 2000
30,000	2.80	March 31, 2000
100,000	4.65	March 31, 2000
137,200	6.50	December 31, 1997
70,000	7.75	March 31, 2000
1,478,210		

Effective April 25, 1996 an additional 1,300,000 stock options exercisable at $11.30 until April 30, 2001 were granted subject to the approval of shareholders and The Toronto Stock Exchange.
The 137,200 stock options at $6.50 expiring on December 31, 1997 are subject to shareholder approval.

(f) ***Share purchase warrants***

Share purchase warrants were outstanding as follows:

February 28, 1996	Exercise Price ($)	Expiry Date
2,095,000	3.00	December 31, 1996
165,702	1.16	September 23, 1997
842,800	6.50	December 31, 1997
3,103,502		

155,934 share purchase warrants expired unexercised on July 5, 1995.

(Thousands of Canadian Dollars)

7. Commitments and Contingency

(a) The Corporation has non-cancellable lease commitments for its head office, manufacturing and operations facilities as follows:

Year ended February 28	$
1997	472
1998	456
1999	402
2000	408
2001	346
Thereafter	416

(b) The Corporation has been named as a defendant in a lawsuit claiming damages arising from an alleged personal injury incurred at one of the Corporation's job sites. The amount of the claim is not reasonably estimable at this time. Management believes that the Corporation has good and valid defenses against the claim and that no material loss will result.

8. Related Party Transactions

(i) The Corporation entered into a ten year lease with a five year renewal option on an industrial building (at market rates, in the opinion of management) from a corporation controlled by a former director and officer. During the year ended February 28, 1996, the rent payable was $141 (1995 - $130). Non-cancellable lease payments over the remaining term of the lease will aggregate $1,195 (refer also to Note 7).

(ii) The Corporation entered into a royalty agreement with Sonas Management Ltd., a corporation controlled by a director and senior officer of the Corporation, which provides for payment of a 5% royalty on all revenues derived from sale, rental and lease of top drive units up to a maximum of $3,000. The royalty was granted for services rendered during the initial research phase of the portable top drive drilling system. Amounts payable under the royalty agreement were $1,849 in the year ended February 28, 1996 (1995 - $919), with a cumulative total to date of $2,956.

(iii) In December 1993, the Corporation sold a top drive unit to Tesco Limited Partnership (#1) (the "Partnership") which is owned and operated primarily by a director, senior officers and others for $630. The Corporation was entitled to receive management fees based on varying shares of the profit of the Partnership. During the year ended February 28, 1996, the Corporation accrued $98 (1995 - $204) of management fee income from the Partnership and the Partnership sold the top drive system prior to February 28, 1996.

(iv) The Corporation made a demand loan of $128 bearing interest at 5% to a company controlled by a senior officer on February 1, 1994. This loan was repaid in full February 1996, together with interest of $13.

(v) During the year, the Corporation established the Tesco Casing Drilling Joint Venture (the "J.V.") by the contribution of certain patent rights and formed a wholly-owned subsidiary to manage the J.V. The Corporation obtained cash financing of $5,000 for the J.V. from investors other than the Corporation, of which $700 was invested by certain senior officers of the Corporation. In connection with and as an incentive for the funding of the J.V., the Corporation issued a total of 980,000 share purchase warrants and options exercisable at $6.50 per share to December 31, 1997 to the investors, of which 137,200 options were issued to senior officers. The Corporation has the right to make future cash contributions to the J.V. to obtain an interest in the J.V. equal to all other participants.

For the years ended February 28

(Thousands of Canadian Dollars)

9. Segment Information

(a) *Business segments*

The drilling services segment is comprised of the rental of top drive systems together with related engineering support services. The oilfield equipment segment includes the sale of top drive systems and the operations of the perforating gun division.

	1996	1995
	$	$
Revenues		
Drilling services	26,289	8,231
Oilfield equipment	15,328	17,678
Other	305	249
	41,922	26,158
Earnings from continuing operations before income taxes and gain on sale of capital assets		
Drilling services	11,368	2,511
Oilfield equipment	3,607	5,181
Corporate	(1,104)	(809)
	13,871	6,883
Identifiable assets		
Drilling services	46,515	18,977
Oilfield equipment	6,393	9,929
Corporate	5,153	2,111
	58,061	31,017
Capital expenditures		
Drilling services	17,648	11,448
Oilfield equipment	1,174	668
Corporate and reclassification (Note 3)	448	9
	19,270	12,125
Depreciation, depletion and amortization		
Drilling services	1,674	801
Oilfield equipment	426	158
Corporate	3	-
	2,103	959

For the years ended February 28

(Thousands of Canadian Dollars)

(b) ***Geographical segments***

	1996	1995
	$	$
Revenues		
Canada	17,599	20,918
United States	10,257	2,483
Other International	14,066	2,757
	41,922	26,158
Earnings from continuing operations before income taxes and gain on sale of capital assets		
Canada	2,183	5,741
United States	5,004	161
Other International	6,684	981
	13,871	6,883
Identifiable assets		
Canada	36,029	24,780
United States	13,203	5,596
Other International	8,829	641
	58,061	31,017
Capital expenditures		
Canada	18,665	7,621
United States	157	4,086
Other International	448	418
and reclassification (Note 3)		
	19,270	12,125
Depreciation, depletion and amortization		
Canada	2,043	573
United States	60	196
Other International	-	190
	2,103	959

The Corporation's international operations are directed from Canada. As such, the Corporation's international revenues, other than those in the United States, are considered to be export sales.

(Thousands of Canadian Dollars)

10. Subsequent Events

(a) ***Issue of share capital***

On April 4, 1996 the Corporation completed a private placement of 2,000,000 Special Warrants at $10 each pursuant to certain prospectus exemptions. Each Special Warrant may be exchanged for one common share of the Corporation at any time prior to the earlier of 10 days after final approval of a prospectus qualifying such shares for distribution and April 4, 1997. In the event that a prospectus is not filed and approved by June 28, 1996, holders of Special Warrants may require the Corporation to repurchase the Special Warrants at their issue price plus any interest earned on the proceeds of the sale of the Special Warrants.

(b) ***Business acquisitions***

On April 1, 1996 the Corporation purchased the assets and undertakings of Weissenborn Oil Tool Ltd. ("Weissenborn"), a supplier of tubing conveyed perforating equipment to the Western Canadian oil and gas industry. On May 1, 1996 the Corporation purchased the assets and undertakings of Kelon Electric Ltd. and Ener-Rig Supply Ltd. ("Kelon") which supply electrical services and equipment to the Western Canadian oil and gas industry.

The assets purchased and the consideration payable are as follows:

	Weissenborn	Kelon	Total
	$	$	$
Assets acquired:			
Inventory	70	950	1,020
Capital assets	13	360	373
Goodwill	987	1,290	2,277
	1,070	2,600	3,670
Consideration:			
Cash on closing	470	2,600	3,070
Balance payable over three years	600	-	600
	1,070	2,600	3,670

Earnings Over Last Eight Quarterly Periods

(Millions of Canadian Dollars except per share amounts)	Gross revenue	Earnings before income taxes, depreciation and amortization (EBITDA)	Net earnings	Net earnings per share (fully diluted)
May 31, 1994	6.5	2.1	2.0	0.12
August 31, 1994	3.2	0.8	0.4	0.00
November 30, 1994	7.8	2.6	1.5	0.10
February 28, 1995	8.7	2.3	1.1	0.06
May 31, 1995	6.4	1.4	0.7	0.04
August 31, 1995	8.7	3.2	1.7	0.07
November 30, 1995	11.3	4.8	2.7	0.11
February 28, 1996	15.6	6.6	3.6	0.15

Tesco Share Trading Summary

	High	Low	Volume
1994			
First Quarter	$3.10	$2.00	1,339,153
Second Quarter	$2.85	$2.10	843,468
Third Quarter	$2.50	$2.00	1,489,862
Fourth Quarter	$2.30	$1.75	925,432
1995			
First Quarter	$2.10	$1.57	916,107
Second Quarter	$3.15	$2.00	5,663,170
Third Quarter	$3.05	$2.30	2,584,848
Fourth Quarter	$7.00	$2.65	9,268,670
1996			
January	$8.00	$6.50	2,350,693
February	$8.50	$6.70	2,162,738
March	$11.40	$7.60	3,255,747
April	$13.10	$10.62	3,670,284
May	$12.50	$10.70	1,624,935

DIRECTORS

Robert M. Tessari
Chairman of the Board
President and
Chief Executive Officer
Calgary, Alberta

J. McCormick * **
Independent Businessman
Dallas, Texas

J. Lindsay Hood
Independent Businessman
Calgary, Alberta

William S. Rice * **
Partner
Bennett Jones Verchere
Calgary, Alberta

* *denotes members of the Audit Committee*

** *denotes member of Compensation Committee*

OFFICERS

Robert M. Tessari
Chairman of the Board
President and
Chief Executive Officer
Tesco Corporation

Per G. Angman
Chief Operating Officer
Tesco Corporation

Martin Hall
Senior Vice President
Finance and Secretary
Tesco Corporation

Colin Murch
Vice President
Business Development
Tesco Corporation

Evert Beierbach
Senior Vice President
and General Manager
Tesco Drilling Technology

Michael Brouse
Senior Vice President
and General Manager
Tesco Drilling Technology-U.S.

Gerry Marshall
Vice President Marketing
Tesco Drilling Technology

Delton A. Campbell
Senior Vice President
and General Manager
Gris Gun Manufacturing Inc.

BANKERS

Bank of Nova Scotia
Calgary, Alberta

Sterling Bank
Houston, Texas

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, Alberta

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AUDITORS

Price Waterhouse
Calgary, Alberta

TRANSFER AGENTS

Montreal Trust
Calgary, Alberta

SALES/SERVICE LOCATIONS

Australia	Indonesia
Austria	Mexico
Canada	Netherlands
China	U.S.A.
France	

SALES AGENT LOCATIONS

Alaska	Phillipines
Argentina	Poland
Brazil	Saudi Arabia
Egypt	Singapore
India	South Africa
Israel	U.A.E.
Italy	United Kingdom
Japan	Venezuela
Oman	

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ANNUAL MEETING

The annual general meeting of the shareholders of Tesco Corporation will be held at

The Westin Hotel Calgary,
Mayfair Room,
4th Avenue & 3rd Street S.W.,
Calgary, Alberta

August 22, 1996
2:00 pm

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TESCO

CORPORATION

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